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Teaching the Ethical Foundations of Economics

By JONATHAN B. WIGHT

Some economists consider their discipline a science, and thereby divorced from messy ethical details, the normative passions of right and wrong. They teach in a moral vacuum, perhaps even advocating economic agents' operating independently and avariciously, asserting that this magically produces the greatest good for society.

Never mind that such a view woefully misinterprets Adam Smith's "invisible hand"; it also belies economists' own instinctive experience, even if we do not often preach it, of the role of morals and virtue in our scholarly endeavors. We abhor plagiarism and data fabrication, for example, but why? Those practices, after all, yield short-term gains for an individual scholar. Of course, such gains are more than offset by scandal when the fraud is uncovered, and they also leave the university and society poorer. Given what our disciplinary jargon would label the high transaction costs in monitoring and finding cheaters, virtuous behavior nurtures the efficient advancement of knowledge.

Likewise in business, the trustworthy conduct of many professions improves the efficiency of industries and the economy as a whole. So when accountants fudge a company's books, and the stock price balloons, we know that bubble must eventually pop, and that innocent third parties will bear the brunt of cleanup. Aside from the unfairness, that situation discourages capital flow to promising ventures later because of investors' mistrust.

If immoral, or sometimes amoral, behavior has long-term external costs for business (think of the East Asian capital crises of the late '90s, or Enron, or Arthur Andersen, or WorldCom), if the role of virtue in fostering long-run efficiency is important, then why have economists long disavowed ethics as a legitimate topic for discussion in the discipline? Beyond the obvious instrumental benefits, ethics also forms the intrinsic core of a liberal-arts experience. It is time for moral inquiry to be included as part of economics education -- or, more accurately, to be reintroduced.

The role of virtue in economics has been extolled since Aristotle. Adam Smith, in the 18th century, made the analogy of human society as an "immense machine," and celebrated virtue as the "fine polish" on its wheels. He excoriated vice as the "rust" that causes the wheels to "jar and grate upon one another." Ethical considerations are central to life, Smith said, and "keen and earnest attention to the propriety of our own conduct ... constitutes the real essence of virtue."

Indeed, modern economics began as a moral science taught by professors trained in the analysis of ethical contexts and conflicts. Smith's The Wealth of Nations (1776) is both a scientific treatise on economic development and a forceful statement about the ethics of markets and the resulting distribution of income. In the 19th century, however, to disengage the field from the grip of church theology, positivists sought to gain factual understanding by eliminating normative considerations. That produced a century-long near-dominance of positivist analysis.

Yet the normative voice never completely lost its place. The Association for Social Economics formed in 1941 to advance economic research into areas of ethics and philosophy. In 1968, Kenneth Boulding devoted his American Economic Association presidential address to the theme "Economics as a Moral Science." From across the philosophical spectrum, the 1974 Nobel Prize winner Friedrich von Hayek, a critic of the welfare state, wrote "The Origins and Effects of Our Morals: A Problem for Science." And Amartya Sen, the Nobel winner in 1998, argued in On Ethics and Economics (1987) that the perceived dichotomy between positive and normative analysis is false at its heart. Whether we realize it or not, value judgments pervade positivist analysis. While not disparaging positivism, Sen argues that considerations of moral agency present a fruitful line of inquiry for understanding human motivation and action -- in essence, revitalizing Adam

Smith's more holistic model. Sen concludes, "welfare economics can be substantially enriched by paying more attention to ethics." In other words, appealing to the view of economics as a science, he suggests that ethics doesn't subvert that science, but is rather part of it.

My own interest in the ethical dimensions of economics arose while coming of age in Brazil in the 1960s. Those were the economic "miracle" years. They were presided over by self-selected military generals under conditions of martial law, and produced an impressive industrial takeoff. But the surge in wealth was concentrated at the top through a variety of means including market manipulation, the repression of organized labor, and the suppression of dissent through torture and death squads. This tragedy was replicated throughout much of Latin America and elsewhere. It brought home to me the essential point that those who push for "markets" as the answer for social ills -- without any conception of the required foundations in institutions of justice and social capital -- will most likely meet with disappointing results.

Adam Smith was not so naive. Justice is central to his concerns, and when Smith elaborates in The Wealth of Nations how global markets can yield greater efficiency, the issue of "justice" arises about once every seven pages. In an earlier work, The Theory of Moral Sentiments (1759), Smith depicts justice as a moral concept of right and wrong that goes beyond legality. To Smith, "Justice ... is the main pillar that upholds the whole edifice. If it is removed, the great, the immense fabric of human society ... must in a moment crumble into atoms." Smith accordingly develops a model by which moral conscience is developed and can be further enhanced, creating social capital in the form of trust and personal responsibility. This is the much-neglected ethical framework for the famous "invisible hand."

By contrast, the American Economic Association lamented the state of graduate programs producing "too many idiot savants, skilled in technique but innocent of real economic issues." William Letwin, in The Origins of Scientific Economics (1963), sums up this point nicely: "Every economic act, being the action of a human being, is necessarily also a moral act."

Ethical inquiry is an essential component of my economics courses, and it doesn't take much class time because it is integrated into other work. I use a variety of methods, including a scarcity game, public-policy essays, and novels and movies; some of my colleagues add service learning. On the first day of Econ 101, I break the class into groups of four or five students. I ask each group to spend a minute introducing themselves and to select a group leader. Then I toss each group a candy bar. I tell them: "You are stranded on a desert island. One morning, you find a candy bar on the beach. You have five minutes to determine what to do with it." After students get over their initial surprise, a spirited discussion follows. Virtually all groups eventually decide to divide the candy bar evenly. When I press students on why they chose that allocation over others, they look at me as if I were from Mars. They respond as a chorus: "Because it's only fair."

That is a fruitful starting place from which to examine processes of allocation with which students are already quite familiar -- for example, egalitarian systems within their nuclear families, dorm-room selections by lottery, and course registrations filled first-come/first-served, or by favoritism. It is an easy step to relate those experiences to the development of socialist economies and the values such nonmarket systems theoretically serve. We then progress to discussing the costs of egalitarian systems, such as the loss of incentives and efficiency, and the possible curtailment of freedom.

That first class highlights the importance that values play in deciding distribution. Students can readily understand that social relations (here, group identity and social harmony) play an important role in many such decisions. By contrast, teachers who begin their "Principles of Economics" class by unquestioningly preaching the standard model of egoistic individualism (Homo economicus) may either (as empirical studies suggest) unconsciously alter the values of their students, or irretrievably alienate some students from the discipline when they experience dissonance with that one-dimensional portrayal.

Short public-policy essays can also bring ethical values into focus. For one essay, I have students respond to a newspaper article about a boy of 3 who is denied surgery by the family's HMO. The experimental procedure would cost $250,000, but it has only a tiny probability of saving the boy's life. Without it he will surely die. Students are asked to put themselves in the shoes of the HMO director and make their own decision. They are explicitly told that they must examine the issue of efficiency (defined as saving the most lives per dollar spent) but that their essay should also discuss fairness, public health, and other concerns. Their final decision must entail a clear and careful weighing of their own values under conditions of scarcity (e.g., all decisions entail lost opportunities).

Students respond to this assignment with great angst. More than one has been tearfully torn, knowing that denying the operation would make a quarter-million dollars available for other more easily treated patients, yet morally unable to deny the boy's operation. It is important in such critical-thinking exercises that students understand that their grade is based on the quality of their analysis of the trade-offs, not their final conclusion. The exercise plants firmly in students' minds that economics is a means to understand our choices, not an end in itself. Still, I have had students over the years confess that they chose the "efficient" solution simply because they thought that was the "right" answer in an economics class. Teachers need to be vigilant about creating such strong unconscious biases. Students must feel free to examine and advocate sets of choices in which efficiency is not the only, or even the most important, game in town.

In a second essay, students write about the shortage of human organs for transplant, caused by a federal law preventing the sale of organs. Only donated (free) organs are permitted, and these are allocated based on the severity of a patient's illness rather than ability to pay. I ask students to determine whether a private market should be legalized so as to yield more organs. Each human has two kidneys, and a rise in price could induce the poor (particularly in developing countries) to part with one of them. Given the current shortage, the increase in organ supply could potentially save thousands of lives. Students are again asked to weigh efficiency concerns against other values such as equity, freedom, public safety, human dignity, and moral rules. By this point in the course, students begin to feel comfortable using their economics training in conjunction with their ethics to reach an answer.

Adam Smith was a devoted fan of the arts as an instrument for arousing moral understanding. To Smith, "the poets and romance writers" were "much better instructors" than philosophers. I wrote a short novel, Saving Adam Smith: A Tale of Wealth, Transformation, and Virtue, to engage students in such a debate about the moral foundations of capitalism. The story, about Smith's tortured soul returning to our world as an immigrant mechanic in Virginia, brings to life the role of moral agency in economics. Contrary to popular misperception, Smith studied not only self-interest but social interests broadly conceived -- including altruism, loyalty, trust, and, most important, self-restraint, based on ethical considerations and commitments. Smith's own writing serves as the basis for much of the dialogue in my book.

I ask students to read the book, then respond with a short essay in which they analyze the "greed is good" beliefs of the 18th-century philosopher Bernard de Mandeville and others, comparing and contrasting their views with Smith's. Students apply this debate to the recent corporate financial scandals, and are asked to identify the role of moral agency in economic efficiency.

In addition to books, films such as The Grapes of Wrath, Wall Street, Erin Brockovich, and Mr. Smith Goes to Washington are engaging classics that deal with economic concepts while questioning "right" and "wrong" behavior.

Some of my colleagues use community-service learning to achieve the same sort of "grounding" of economics and policy within the broader ethical context. Students tutor incarcerated juveniles, assist arriving refugees, work in homeless shelters, and sell products made by indigenous communities recently opened to global trade. Initially, these settings often provoke discomfort, and students' moral "imaginations" (to use Smith's term) become stretched. Students are asked to read and reflect on the moral questions associated with the service. The purpose of this exposure is not to indoctrinate students as to what a correct ethical response is, but to stimulate their critical thinking and personal development in ways that enrich their understanding of economic matters.

These techniques for introducing ethics into the classroom have, as we economists say, a low opportunity cost in terms of taking time from existing course work. At an advanced level, a more intensive examination of ethics and economics would be desirable, both for reviewing the growing literature about the impact of ethics on outcomes (e.g., negotiation), as well as for affirming the inherent function of ethical inquiry in a liberal-arts education. A few programs (such as Notre Dame's) have offered such an advanced class, yet for ethics to be widely reintroduced, it would probably have to be integrated into existing courses.

All business students do it; all law students do it; all medical students do it. Why shouldn't all budding economists also study ethics? Many of my colleagues would respond that economists have a comparative advantage at understanding efficiency, and are mere amateurs at understanding ethics. Surely it misallocates resources for economists to devote scarce class time to ethics.

Yet, a hundred years ago, economists were "forced," by virtue of the changing methodology of the field, to apply the language of mathematics to their teaching and research. Later they were "forced" to become proficient at computers and econometrics in order to carry out quantitative research. I contend that today's economists are compelled, by world events and the demands of a liberal-arts education, to rediscover and extend the discipline's roots. As R.D. Collison Black, the noted historian of economic thought, so eloquently put it, Adam Smith's economics is a "system of thought which [places] economic problems firmly in the context of ethics ... informed throughout by a concept of justice." How long will it take for economics teachers to realize that discussions beyond self-interest are in their students' self-interest?

Jonathan B. Wight is an associate professor of economics at the University of Richmond. His most recent book is Saving Adam

Smith: A Tale of Wealth, Transformation, and Virtue (Financial Times/Prentice Hall, 2002).

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